

D R A F T

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

Item 37 I. D. #5030

RESOLUTION E-3952

NOVEMBER 18, 2005

R E S O L U T I O N

Resolution E-3952. Concludes that the Sacramento Municipal Utility District's proposal to annex the Cities of Davis, West Sacramento, Woodland, and other portions of Yolo County, located in Pacific Gas and Electric Company's service territory, will not substantially impair Pacific Gas and Electric Company's ability to provide adequate service at reasonable rates within the remainder of its service territory.

Request made by letter, effective August 22, 2005, from Sacramento Local Agency Formation Commission to the California Public Utilities Commission.

SUMMARY

The proposal by the Sacramento Municipal Utility District (SMUD) to expand into Yolo County to serve Pacific Gas and Electric Company (PG&E) customers in Davis, West Sacramento, Woodland, and adjacent unincorporated areas, will not substantially impair PG&E's ability to provide adequate service at reasonable rates within the remainder of its service territory.

- Although annexed customers are expected to pay most of the transition costs, there may be some costs that remaining PG&E ratepayers will cover because of the annexation.
- SMUD's proposed new facilities do not duplicate or idle existing PG&E facilities but rather are needed to resolve reliability deficiencies in the annexation area.
- No costs will be shifted to PG&E's remaining ratepayers as a result of SMUD's acquisition and severance proposals because SMUD will compensate PG&E for "acquired" and "stranded" facilities in accordance

with an asset valuation determination, and “remaining” facilities can be reconfigured for PG&E’s use.

- A “worst case” scenario of lost revenues and additional costs results in a de minimis overall rate impact to PG&E’s remaining ratepayers.

Some issues are outside the scope of the CPUC’s review of the proposal under Government Code Section 56131.

- Ancillary issues raised by PG&E are not relevant to the CPUC’s inquiry.
- Cumulative impacts of additional annexation proposals go beyond the CPUC’s statutory reporting requirements but could be considered in a separate CPUC proceeding.

BACKGROUND

SMUD proposes to expand into Yolo County to serve PG&E customers in Davis, West Sacramento, Woodland, and adjacent unincorporated areas.

SMUD currently generates, transmits, and distributes electric power throughout a 900 square mile service area that includes Sacramento County and a small portion of Placer County.¹ In early 2003, the Cities of West Sacramento, Davis, Woodland (the Cities) and the County of Yolo requested that SMUD consider annexation to replace existing PG&E electric service with SMUD service for approximately 70,000 customers in the Cities and adjacent unincorporated areas between and surrounding the Cities.² Based on a feasibility study, these communities believed there was the potential for lower rates, the ability to participate in decision-making on energy-related issues at the local level, and the potential for improved reliability and customer service. Additional feasibility studies were conducted in 2004 which concluded that annexation was technically and financially viable, and demonstrated economic benefits to both SMUD’s existing customers and customers within the annexation area. After

¹ Additionally, SMUD annexed and now serves a small area in Yolo County.

² The proposed annexation territory does not include the University of California located in Davis.

consideration of the studies and a formal joint resolution requesting annexation from the Cities and Yolo County, the SMUD Board of Directors authorized its staff to proceed with annexation. On July 29, 2005, SMUD submitted its application proposing annexation to the Sacramento LAFCo for approval.

The CPUC is responsible for investigating SMUD's annexation proposal and issuing its advisory report to the LAFCo on whether the annexation will have substantial impact upon PG&E's remaining customers.

By letter, effective August 22, 2005, the Sacramento LAFCo submitted SMUD's annexation proposal to the CPUC. Government Code Section 56131 requires the CPUC to investigate the proposal and report its opinion to the LAFCo within 90 days whether the proposed service within the proposal territory will substantially impair the ability of the public utility to provide adequate service at reasonable rates within the remainder of its service area.

The CPUC has relied on certain criteria in the past to evaluate and make its determination concerning substantial impairment to PG&E's remaining ratepayers.

In Resolution E-3472 dated November 26, 1996, the CPUC addressed the formation of Crossroads Irrigation District as requested by the San Joaquin County LAFCo. In that resolution, the CPUC used the following three criteria for evaluating the proposed service and making a determination:

- 1) whether the customers of the proposed irrigation district will be able to bypass payment of generation-related transition costs, which would require the remaining PG&E customers to cover these costs,
- 2) whether the proposed irrigation district will install duplicate distribution infrastructure, potentially idling PG&E distribution facilities and requiring remaining PG&E customers to cover the costs of these idled facilities, and
- 3) whether the amount of generation-related transition costs or idle distribution facilities shifted to remaining PG&E customers, if any, would have a significant rate impact on remaining PG&E customers.

To perform its review, Energy Division asked for and received additional information from PG&E concerning SMUD's annexation proposal.

On August 18, 2005, the Energy Division requested that PG&E 1) address the above criteria and respond to some specific questions, 2) raise any related issues, 3) explain whether, in PG&E's opinion, the proposed service by SMUD would substantially impair PG&E's ability to provide adequate service at reasonable rates within the remainder of its service territory, and 4) address any cumulative impacts of additional such proposals.

NOTICE

The Sacramento LAFCo's letter was noticed in the Daily Calendar.

The letter from Sacramento LAFCo to the CPUC, effective August 22, 2005, was noticed by publication in the Commission's Daily Calendar on August 24, 2005.

PROTESTS

PG&E asserts SMUD's proposed annexation will substantially impair its ability to provide adequate service at reasonable rates within the remainder of its service territory. SMUD disagrees with PG&E's assertion.

PG&E responded to the Energy Division's request for information on August 29, 2005. In summary, PG&E believes that the proposed annexation will substantially impair its ability to provide adequate service at reasonable rates within the remainder of its service territory. SMUD disagrees and addressed PG&E's response in comments filed on September 12th. Specific issues are discussed below.

On October 13th, PG&E filed a lengthy reply to SMUD's September 12th comments. Because a draft of this Resolution had to be mailed for public comment by October 19th in order to meet the 90 day statutory deadline, the Energy Division did not have sufficient time to substantively review PG&E's reply. To the extent applicable, PG&E should submit its response to SMUD's comments by way of comments on this draft Resolution. SMUD may respond to PG&E by way of reply comments.

DISCUSSION

Energy Division evaluates SMUD's annexation proposal utilizing modified CPUC criteria.

In Resolution E-3472, the CPUC used three criteria for evaluating the Government Code Section 56131 provision of whether the district's proposed service would "substantially impair the ability of the public utility to provide adequate service at reasonable rates within the remainder of the service area of the public utility." The criteria were used to assess whether there are any costs to PG&E's remaining ratepayers from customer bypass of transition costs and/or from the installation of duplicative infrastructure causing idle facilities, and if so whether such costs would have a significant rate impact. It would be reasonable to apply these criteria to the SMUD proposed annexation. However, these criteria should be expanded as discussed in more detail below in order to identify and properly evaluate all quantifiable costs associated with the proposed service that would be shifted to remaining PG&E customers. In doing this, the CPUC should also determine whether there are any positive quantifiable benefits which would offset any of these costs.

Unless specifically exempted by the CPUC, customers in the proposed annexation territory will not be able to bypass payment of applicable transition costs.

For purposes of evaluating SMUD's annexation proposal, transition costs include all components currently included in the Cost Responsibility Surcharge (CRS)³. In a series of decisions issued over the last two years⁴, the CPUC has ruled on the obligations of Municipal Departing Load (MDL) customers to pay the following components of the CRS: the DWR bond charge (DWRBC), the DWR

³ Transition costs do not include the Nuclear Decommissioning Charge (NDC), the Fixed Transition Amount (FTA), or the Public Purpose Program (PPP) charge.

⁴ See Decision (D.) 03-07-028, D.03-08-076, D.04-11-014, D.04-12-059, D.05-07-038, and D.05-08-035.

power charge (DWRPC), the ongoing competition transition charge (CTC), and the energy cost recovery amount (ECRA) charge.⁵

PG&E and SMUD agree that the net result of the aforementioned CPUC decisions is that transferred and new MDL sales in the annexation area would continue to be responsible for payment of the DWRBC and the ongoing CTC. However, a portion of the transferred load MDL sales, and all new MDL (subject to a specified cap) would be exempt from the DWRPC per D.04-11-014 and D.04-12-059. Moreover, Public Utilities Code Section 848.1(c) and D. 05-08-035 require that all new MDL sales that are eligible for the DWR exemption also receive an exemption from the ECRA charge.

As a result of the annexation, PG&E's remaining customers will assume costs resulting from the DWRPC and ECRA payment exceptions previously adopted by the CPUC for MDL customers in the annexed area.

Although PG&E and SMUD agree that some annexed customers may be exempt from the DWRPC and the ECRA charge, they disagree as to whether PG&E's remaining customers would have to cover any costs associated with the exemptions. PG&E estimates a total cost impact of \$74 million (over a 20-year period), or approximately \$7.3 million per year on an annualized basis, in lost revenues resulting from the DWRPC and ECRA charge exemptions that would have to be covered by remaining PG&E customers⁶. SMUD argues that the

⁵ The DWRBC covers the costs associated with the bonds DWR issued in 2002 to recover the costs it incurred to procure power during the energy crisis. The DWRPC covers the above-market costs associated with the contracts entered into by DWR. The on-going CTC covers the above-market portion of the contracts that PG&E executed with qualifying facilities, as authorized via Assembly Bill 1890. The ECRA charge, sometimes referred to as the Energy Recovery Bond charge or the Dedicated Rate Component, collects the costs associated with the energy recovery bonds issued to finance PG&E's bankruptcy-related costs

⁶ PG&E states there is a possibility that SMUD may argue for a CTC "stand-alone" exemption per Public Utilities Code Section 369 in the future which it believes would shift additional costs to PG&E's remaining ratepayers, if granted. SMUD does not believe its customers in Yolo County would qualify for the CTC "stand-alone" exemption per Public Utilities Code Section 369 on any broad scale.

CPUC determined that since DWR did not incur costs to serve the exempted load, the exemptions will not result in any costs to PG&E's remaining ratepayers.

Transition costs, by way of the CRS components, are to be recovered from all PG&E remaining customers, including bundled customers and non-exempt direct access customers, customer generation departing load customers and MDL customers. The overall cost obligation is a fixed amount. To the extent annexed load is excepted from any of this cost obligation, that portion they would have otherwise paid now must be assumed by PG&E's remaining customers. The amount is likely to be \$7.3 million per year using PG&E's estimate.

SMUD's proposed new integration facilities do not duplicate or idle existing PG&E facilities but rather are needed to resolve reliability deficiencies in the annexation area.

SMUD proposes construction of an 18-mile transmission line and a new substation to integrate the annexed electric system into the SMUD grid. PG&E asserts that these new integration facilities duplicate PG&E infrastructure that adequately serves load in the area.

SMUD responds that the proposed new facilities are not duplicative of PG&E facilities. Instead, they are supplemental facilities required to remedy long-standing reliability and load-serving issues. SMUD alleges that PG&E has failed to maintain adequate transmission capacity in the area and that a number of upgrades and modifications would be necessary in the area even in the absence of SMUD's annexation proposal.

SMUD supports its allegations with references to studies and historical reliability data. Upon review of SMUD's references, we concur with SMUD that the new integration facilities do not duplicate PG&E facilities but rather are needed to resolve reliability deficiencies in the annexation area. Furthermore, our main concern regarding duplicative facilities is whether PG&E facilities would become idle as a result requiring PG&E customers to cover the costs of the idled facilities. PG&E does not claim that any of its facilities would become idled or stranded as a result of SMUD's proposal to build the new integration facilities. Accordingly, no costs would be shifted to PG&E's remaining ratepayers as result of their construction.

Other aspects of SMUD's annexation proposal result in the stranding of PG&E facilities.

Although we conclude that SMUD's proposed new integration facilities, in and by themselves, do not idle PG&E's existing facilities, a few of PG&E's assets will be stranded as a result of SMUD's proposed acquisition and severance plans. With this in mind, we believe our second criterion perhaps narrowly spoke only to idle facilities/cost impacts resulting from duplicative infrastructure, and instead should more broadly assess whether any aspects of the proposal would result in idle facilities and whether remaining PG&E customers would be required to cover the costs of those idled/stranded facilities.

SMUD has identified approximately 10.7 miles of existing PG&E transmission line⁷ and two line taps that will be "stranded" by its acquisition and severance proposals. SMUD states that it will provide compensation to PG&E for these few facilities. In addition to these stranded assets, PG&E states portions of its Rio Oso-West Sacramento and Brighton-West Sacramento transmission lines will be stranded resulting in a \$21 million (NPV) cost to remaining ratepayers. SMUD responds that these additional PG&E facilities will be not be stranded and PG&E customers will not suffer a loss because SMUD proposes to pay compensation for the "acquired" portions of these transmission lines, and allows the "remaining" portions to be reconfigured for PG&E's use.

No costs will be shifted to PG&E's remaining ratepayers as a result of SMUD's acquisition and severance proposals because SMUD will compensate PG&E for "acquired" and "stranded" facilities in accordance with a court or CPUC/FERC asset valuation decision, and "remaining" facilities can be reconfigured for PG&E's use.

First we address whether the agreed-upon "stranded" assets and the "acquired" portions of PG&E's transmission facilities result in any cost impacts to PG&E's remaining ratepayers. In Resolution E-3472, regarding duplicative facilities, we stated that if a district were to purchase or lease existing infrastructure from PG&E, then the costs associated with those facilities would not be shifted to

⁷ This is comprised of an 8.16 mile portion of the Woodland-Rio Oso #1 and a 2.5 mile portion of the Brighton-Davis line.

remaining PG&E customers. SMUD plans to condemn PG&E property and pay PG&E compensation for “acquired” and “stranded” facilities through negotiated agreement, or if that does not succeed, through eminent domain. This is akin to a purchase arrangement, irrespective of whether the arrangement is effected by a condemnation judgment or by mutual agreement. Assuming the price paid fully compensates PG&E for the facilities, then no costs will be shifted to remaining ratepayers, and thus ratepayers are indifferent.

PG&E argues that the amount proposed by SMUD grossly understates the actual value⁸ and has grave concerns that in an eminent domain proceeding, the court may not require SMUD to fully compensate PG&E causing its remaining ratepayers to bear the shortfall. SMUD, on the other hand, states that if an eminent domain action is necessary, the compensation determined by a final, non-appealable judgment will constitute full compensation, and therefore, there will be no shortfall to be borne by PG&E’s remaining ratepayers.

We agree with SMUD. Under eminent domain laws, the court will assess evidence regarding the valuation of utility assets and the amount of compensation owed in order to fully compensate PG&E for those assets. This is a matter best left to the Court.⁹

⁸ SMUD believes compensation for the facilities should be based on what PG&E actually paid for the facilities using the Original Cost Less Depreciation (OCLD) valuation methodology. PG&E believes it is entitled to current fair market value for its facilities using the Replacement Cost New Less Depreciation (RCNLD) methodology.

⁹ Under Public Utilities Code § 1401 *et seq.*, SMUD has the option to seek this Commission’s determination of the just compensation to be paid for any PG&E assets that it seeks to acquire in connection with its annexation proposal. If, after their initial negotiations, PG&E and SMUD cannot reach agreement on the terms of the transfer of the facilities necessary to effectuate the proposed annexation, we would encourage SMUD to utilize the auspices of this Commission under that law in order to resolve this disagreement. However, resort to this Commission’s procedures under Public Utilities Code § 1401 *et seq* is not mandatory, and SMUD always retains the option of initiating an eminent domain proceeding in the courts if it and PG&E are unable to negotiate an agreed-on set of terms for the transfer of facilities.

If SMUD does not file an eminent domain action but rather PG&E and SMUD reach agreement on the terms of the transfer of facilities, including the sale price, PG&E would be required to seek CPUC approval of the proposed transaction pursuant to Public Utilities Code § 851 for any distribution assets and Federal Energy Regulatory Commission (FERC) approval for any transmission assets. It is through this process, that asset valuation methodologies will be debated and the reasonableness of the provisions of the proposed asset sale/transfer agreement will be decided. The CPUC and/or FERC approved sale price amount will constitute reasonable compensation.

Next we address whether the “remaining” portions of PG&E’s transmission facilities will be stranded without compensation by SMUD causing cost impacts to PG&E’s remaining ratepayers or whether they can be reconfigured for PG&E’s use. Given the reliability concerns in the area, SMUD has made a convincing argument that PG&E would need to upgrade, modify or construct new facilities in the annexation area in order to continue reliable service. Instead, the “remaining” lines can be reconfigured to serve its remaining load more reliably without additional infrastructure upgrades. Accordingly, we find that no costs will be shifted to PG&E’s remaining customers.

Other quantifiable costs and benefits associated with the annexation proposal should be considered in the rate impact analysis.

In addition to the cost impacts to remaining customers from any transition cost exemptions and/or idled facilities, the Energy Division requested PG&E to identify any other costs associated with the proposed annexation. In response, PG&E states that its remaining customers would be adversely affected by lost transmission and distribution (T&D) revenues¹⁰, lost lease agreement revenues, and additional costs to reinforce various high voltage assets to wheel power to SMUD. While SMUD believes it is neither appropriate nor necessary to expand the criteria used by the CPUC in Resolution E-3472, SMUD responds to each of PG&E’s cost/revenue loss claims and includes estimated benefits of the annexation. We believe it is appropriate to consider the quantifiable costs and benefits of the proposed annexation proposal as identified by PG&E and SMUD.

¹⁰ This includes revenues from T&D rate components as well as revenues from some non-bypassable charges.

PG&E asserts that its remaining customers must pay more to cover the lost T&D revenues that otherwise PG&E would have collected from the customers in the area. PG&E agrees it would avoid some T&D-related costs should the annexation occur; however, it estimates that the lost revenue will exceed the avoided costs. Furthermore, PG&E admits lost revenues would partly be offset by the compensation ultimately provided by SMUD for the T&D assets, up to their book value, since this value would be removed from PG&E's rate base. PG&E's calculations result in Contribution to Margin (CTM) losses¹¹ of \$439 million (Net Present Value), or approximately \$43.4 million per year on an annualized basis.

SMUD believes PG&E's loss estimates are inflated. In its own "worst case" analysis, SMUD believes the maximum potential loss would be approximately \$17 million annually. SMUD asserts this impact will be entirely offset by six to nine months of load growth on PG&E's system. Ignoring this assertion, SMUD maintains that the "worst case" impact can be reduced by approximately \$12.7 million per year if you factor in the benefit that additional low cost hydroelectric and nuclear generation will be available for reallocation to PG&E's remaining customers as a result of the annexation.

In addition to CTM losses, PG&E states that the proposed annexation will also result in a reduction of revenues that PG&E receives for leasing space on its transmission facilities. This includes various types of telecommunications and fiber assets owned by others, for which PG&E receives a revenue contribution that is shared with its ratepayers. PG&E has not yet quantified these impacts. In response, SMUD states that it plans to compensate PG&E for the value of such leases and thus its acquisition of these assets will not impact PG&E's remaining ratepayers.

PG&E estimates that it will also incur costs necessary to reinforce various high voltage (230 KV and 500 KV) transmission assets that it owns that are used, in part, to wheel power to SMUD. It claims if the Yolo load plus the UC Davis load is added to the SMUD area, the power to serve this load will flow over a different

¹¹ PG&E calculates the loss of CTM as the difference between the lost revenues and the sum of avoided costs and book value.

path than is presently the case. PG&E believes that as a result, facilities south of Rio Oso Substation would be come overloaded and need to be upgraded. PG&E currently estimates the costs to upgrade these facilities at roughly \$20 million, or approximately \$2 million per year on an annualized basis¹². SMUD disagrees that PG&E would be required to reinforce and expand the capacity of its current transmission interconnections with SMUD because load flow studies confirm that SMUD has sufficient load serving capability in place to serve the annexed load.

Even a “worst case” scenario of lost revenues and additional costs results in a de minimis overall rate impact to PG&E’s remaining ratepayers.

As discussed above, there is a wide variance between PG&E and SMUD estimates of lost revenues, additional costs and benefits. PG&E estimates a total annualized cost of \$52.7 million (\$7.3 million for transition cost exceptions plus \$43.4 million for CTM losses plus \$2 million for high voltage transmission upgrade costs) which would translate into a 0.087 cents per kilowatt-hour (kWh) rate impact. SMUD calculates a much lower figure of \$4.3 million (\$17 million for CTM losses less \$12.7 million for low cost power benefits) which would translate into a 0.005 cents per kWh rate impact.

We note that PG&E's current system average rate is 12.77 cents per kWh for bundled service customers¹³. Using PG&E’s calculations as a “worst case” scenario, this current system average rate would increase by less than a tenth of a cent. We conclude that a potential rate impact of this magnitude would not substantially impair PG&E’s ability to provide adequate service at reasonable rates within the remainder of its service territory.

Furthermore, we agree with SMUD that it is appropriate to net out any quantifiable annexation benefits, which has the effect of significantly reducing PG&E’s “worst case” rate impact figure.

¹² PG&E notes this is a preliminary estimate because more analysis is needed for more precision and to determine the extent to which these investments might be required absent SMUD’s annexation.

¹³ PG&E Advice Letter 2706-E filed on September 1, 2005.

Ancillary issues raised by PG&E are beyond the scope of CPUC's required statutory review.

In addition to the quantifiable cost/benefit related issues discussed above, PG&E also raised some ancillary issues that it believes will place additional burdens upon its remaining ratepayers. In particular, PG&E believes that SMUD's annexation proposal 1) fosters continued "balkanization" of the CAISO grid, 2) removes load from CPUC oversight thereby eliminating requirements for adherence to CPUC and State Energy Action Plan policies, and 3) takes away AB 1X rate increase protections.

Although SMUD responded to each issue raised by PG&E, it believes none of these matters are relevant to the CPUC's inquiry under Government Code Section 56131. We agree with SMUD. Accordingly, we did not expand the scope of our review to consider these ancillary issues.

Cumulative impacts of additional annexation proposals are outside the scope of the CPUC's statutory reporting requirements but could be considered in a separate CPUC proceeding.

In Resolution E-3876 dated August 19, 2004, the CPUC found that an individual annexation proposal did not have a significant impact on the regulated utility's ability to serve its remaining customers but that the cumulative impact of additional such proposals in the future may pose a substantial impairment to the utility's ability to provide adequate service at reasonable rates. The Energy Division requested PG&E to address cumulative impact issues. In response, PG&E summarized other potential annexation proposals in the near future and estimated that an additional \$175.9 million per year would be shifted to PG&E's remaining ratepayers should they occur.

SMUD argues that consideration of the cumulative impacts of additional proposals is outside the scope of the review authorized in Government Code Section 56131. That statute speaks only to the particular proposal under review and says nothing about potential service by another publicly owned utility, whether existing at the time of the service proposal under review or potentially arising in the future. In Resolution E-3876, we expressly agreed that "[t]he statute requires us to report to the LAFCo on the potential impacts only of the particular proposed municipal service" but expressed concern regarding

cumulative impact of additional proposals. We agree with SMUD that it would not be appropriate, in the context of our report under Government Code Section 56131, to analyze cumulative impacts of additional proposals. This type of analysis could be the subject of a CPUC issued Order Instituting Rulemaking (OIR) to comprehensively address energy policy issues associated with the formation of or expansion of public power within a public utility's service territory.

COMMENTS

Per statutory requirement, this Draft Resolution was mailed to parties for comment at least 30 days prior to consideration by the Commission.

Public Utilities Code section 311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g)(2) provides that this 30-day period may be reduced or waived upon the stipulation of all parties in the proceeding.

The 30-day comment period for the draft of this resolution was neither waived nor reduced. Accordingly, this draft resolution was mailed to parties for comments, and will be placed on the Commission's agenda no earlier than 30 days from today.

FINDINGS

1. By letter, effective August 22, 2005, the Sacramento LAFCo submitted SMUD's annexation proposal to the CPUC for an opinion under Government Code Section 56131.
2. The following are reasonable criteria for determining whether the annexation will substantially impact of the utility's ability to provide adequate service at reasonable rates within the remainder of its service territory: a) whether the customers of the proposed district will be able to bypass payment of transition costs, which would require the remaining PG&E customers to cover these costs, b) whether any aspect of the district's proposal will potentially idle PG&E facilities requiring

remaining PG&E customers to cover the costs of these idled facilities, c) whether there are any other quantifiable costs and/or offsetting benefits that would affect remaining PG&E customers, and d) whether the resulting cost impact, if any, would have a significant rate impact on remaining PG&E customers.

3. Customers in the proposed annexation territory will not be able to bypass payment of the DWRBC and the ongoing CTC but some would be exempt from the DWRPC and the ECRA charge, in accordance with Commission decisions and statutes.
4. To the extent annexed load has previously received exceptions from having to pay the DWRPC and ECRA charge, PG&E's remaining ratepayers will assume responsibility for those costs once this annexed load no longer takes service from PG&E..
5. SMUD's proposed new integration facilities do not duplicate or idle existing PG&E facilities but rather are needed to resolve reliability deficiencies in the annexation area.
6. SMUD's acquisition and severance proposals result in the stranding of PG&E facilities.
7. No costs will be shifted to PG&E's remaining ratepayers as a result of SMUD's acquisition and severance proposals because SMUD will compensate PG&E for "acquired" and "stranded" facilities in accordance with either a court or CPUC/FERC asset valuation determination, and "remaining" facilities can be reconfigured for PG&E's use.
8. In addition to the cost impacts from any transition cost exceptions and/or idled facilities, other quantifiable costs and benefits identified by PG&E and SMUD should be considered in the rate impact analysis.
9. A "worst case" scenario of lost revenues and additional costs results in a 0.087 cents per kWh rate impact to PG&E's remaining ratepayers.
10. A potential rate impact of this magnitude would not substantially impair PG&E's ability to provide adequate service at reasonable rates within the remainder of its territory.

11. Ancillary issues raised by PG&E are not within the scope of the review authorized in Government Code Section 56131.
12. Cumulative impacts of additional annexation proposals are outside the scope of the CPUC's statutory reporting requirements but could be considered in a separate CPUC proceeding.

THEREFORE IT IS ORDERED THAT:

1. A certified copy of this Resolution shall be mailed to the Executive Officer of the Sacramento Local Agency Formation Commission.
2. This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on November 18, 2005; the following Commissioners voting favorably thereon:

STEVE LARSON
Executive Director

ID# 5030

October 19, 2005

Commission Meeting Date: November 18, 2005

TO: PARTIES INTERESTED IN SMUD'S PROPOSAL TO EXPAND INTO
YOLO COUNTY TO SERVE PG&E CUSTOMERS IN DAVIS, WEST
SACRAMENTO, WOODLAND, AND ADJACENT UNINCORPORATED
AREAS

Enclosed is draft Resolution E-3952 of the Energy Division. It addresses the Sacramento LAFCO's request for the CPUC's opinion regarding SMUD's proposal to annex the Cities of Davis, West Sacramento, Woodland, and other portions of Yolo County, located in PG&E's service territory. The draft Resolution will be on the agenda at the November 18, 2005 Commission meeting. The Commission may then vote on this draft Resolution, or it may postpone a vote until later.

When the Commission votes on a draft Resolution, it may adopt all or part of it as written, amend, modify or set it aside and prepare a different Resolution. Only when the Commission acts does the Resolution become binding on the parties.

Parties may submit comments on the draft Resolution.

An original and two copies of the comments, with a certificate of service, should be submitted to:

Jerry Royer
Energy Division
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102
Fax: 415-703-2200; jjr@cpuc.ca.gov

A copy of the comments should be submitted by electronic mail to Laura Martin in the Energy Division at: lra@cpuc.ca.gov.

Any comments on the draft Resolution must be received by the Energy Division by November 3, 2005. Those submitting comments must serve a copy of their comments on 1) the entire service list attached to this letter, 2) all Commissioners, and 3) the Director of the Energy Division, on the same date

that the comments are submitted to the Energy Division. Comments may be submitted electronically.

Comments shall be limited to five pages in length, and list the recommended changes to the draft Resolution. Comments shall focus on factual, legal or technical errors in the proposed draft Resolution. Comments that merely reargue positions taken in the advice letter or protests will be accorded no weight and are not to be submitted.

Replies to comments on the draft resolution may be submitted (i.e. received by the Energy Division) on November 8, 2005, and shall be limited to identifying misrepresentations of law or fact contained in the comments of other parties. Replies shall not exceed five pages in length and shall be served as set forth above for comments.

Late submitted comments or replies will not be considered.

Gurbux Kahlon
Program Manager
Energy Division

Enclosures:

Certificate of Service

Service List

CERTIFICATE OF SERVICE

I certify that I have by mail this day served a true copy of Draft Resolution E-3952 on all parties in these filings or their attorneys as shown on the attached list.

Dated October 19, 2005 at San Francisco, California.

Jerry Royer

NOTICE

Parties should notify the Energy Division, Public Utilities
Commission, 505 Van Ness Avenue, Room 4002
San Francisco, CA 94102, of any change of address to
insure that they continue to receive documents. You
must indicate the Resolution number on the service list
on which your name appears.

Service List for E-3952

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